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August 26, 2004

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, 2<sup>nd</sup> Floor  
Boston, Massachusetts 02110

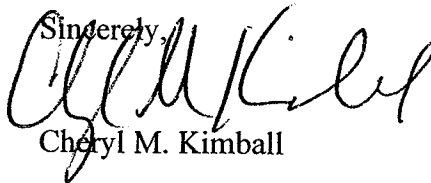
Re: Southern Union Company, D.T.E. 04-75-A

Dear Secretary Cottrell:

Enclosed please find an original and seven copies of the petition of Southern Union Company (the "Company") for authorization and approval pursuant to G.L. c. 164, §§ 14 and 16 to issue up to \$700 million in common stock for the purpose of refinancing outstanding debt.

Also enclosed herewith is the direct testimony of Richard N. Marshall, Southern Union's Vice President and Treasurer, and exhibits thereto. The Company will submit its filing fee relating to the petition as soon as the Company determines the actual amount of common stock that it intends to issue, a decision likely to be made over the next 10 business days.

Please do not hesitate to contact me if you have any questions or if I can provide you with any additional information. Thank you for your attention to this matter.

Sincerely,  
  
Cheryl M. Kimball

Enclosures

cc: Andrew O. Kaplan, General Counsel  
Kevin Brannelly, Director, Rates and Revenue Requirements  
Joseph Rogers, Office of the Attorney General  
Robert Sydney, Division of Energy Resources

**COMMONWEALTH OF MASSACHUSETTS**

**DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

Southern Union Company

D.T.E. 04-75-A

**PETITION FOR AUTHORIZATION PURSUANT TO G.L. c. 164, §§ 14 and 16  
TO CONDUCT AN EQUITY ISSUANCE**

Southern Union Company ("Southern Union" or the "Company") hereby petitions the Department of Telecommunications and Energy (the "Department") for approval and authorization pursuant to G.L. c. 164, §§ 14 and 16 to issue up to \$700 million in common stock, preferred stock, equity units or a combination thereof, for the purpose of investing up to \$700 million in CCE Holdings, LLC, a joint venture between Southern Union and an equity partner, GE Commercial Finance Energy Financial Services.

In support of its request, Southern Union states as follows:

1. Southern Union is a Delaware corporation that is primarily involved in the distribution, transportation and storage of natural gas throughout the United States. As a natural gas local distribution company, Southern Union serves approximately 1 million customers through its operating divisions in Missouri, Pennsylvania, Rhode Island and Massachusetts. In Massachusetts, Southern Union serves approximately 50,000 customers through the New England Gas Company, which operates as a division of Southern Union pursuant to G. L. c. 164, § 1. As such, Southern Union is subject to the Department's jurisdiction and the provisions of G. L. c. 164, as amended.

2. The Company is seeking approval and authorization in this docket pursuant to G.L. c. 164, §§ 14 and 16 to issue up to \$700 million in common stock, preferred stock, equity units or a combination thereof to fund its investment in CCE Holdings, LLC ("CCE"), a joint venture between Southern Union and an equity partner, GE Commercial Finance Energy Financial Services ("GE Energy Finance").
3. On June 24, 2004, CCE entered into a Purchase Agreement ("Agreement") with Enron Corp. and its affiliates (collectively, "Enron") to acquire 100 percent of the equity interests of CrossCountry Energy LLC ("CrossCountry"). CrossCountry is a holding company headquartered in Houston Texas, which employees 1,100 people and owns interests in and operates Transwestern Pipeline Company, Citrus Corp. and Northern Plains Natural Gas Company. In total, the interstate distribution system that is owned and operated by CrossCountry is comprised of approximately 9,700 miles of pipeline and approximately 8.5 Bcf/day of natural gas capacity and serving customers in four major geographical regions in 18 states.
4. The total investment to be made by Southern Union to accomplish the purchase of the CrossCountry assets through CCE will not exceed \$700 million. Southern Union will undertake an equity issuance to raise all or part of the capital needed to fund its portion of the investment. The remainder of the purchase price will be funded through a combination of (1) investment by GE Energy Finance; (2) the assumption of existing CrossCountry debt totaling approximately \$461 million; and (3) a debt issuance by CCE.

5. As discussed in the testimony of Richard N. Marshall, Vice President and Treasurer of Southern Union, which is filed herewith, the equity issuance is reasonably necessary to further the Company's long-term strategic plan to own regulated interstate natural gas assets that will provide stable and predictable cash flows and that will create the opportunity to achieve operating synergies that will benefit other divisions of the Company, including those serving customers in Massachusetts. Accordingly, the proposed issuance will serve a legitimate utility purpose in that it will facilitate a transaction that will benefit Massachusetts customers.
6. The issuance of the proposed equity financing will comply with G.L. c. 164, § 16 because following the issuance, the fair structural value of the Company's property, plant and equipment and the fair value of the gas inventories held by the Company, will exceed its outstanding stock and long-term debt.

**WHEREFORE**, the Company respectfully requests that, after notice and hearing, the Department:

VOTE: That the issuance of up to \$700 million in common stock, preferred stock, equity units or a combination thereof is reasonably necessary for the purposes for which such issuance has been authorized, pursuant to G.L. c. 164, § 14.

VOTE: That the issuance of up to \$700 million in common stock is in accordance with G.L. c. 164, § 16, in that the fair structural value of the Company's property, plant and equipment and the fair value of the gas inventories

held by the Company, will exceed its outstanding stock and long-term debt.

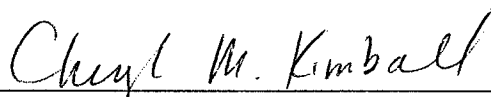
ORDER: That the Department approves and authorizes the issuance and sale by Southern Union Company, in conformity with all the provisions of law relating thereto, of up to \$700 million in common stock, preferred stock, equity units or a combination thereof.

ORDER: Such other and further orders and approvals as may be necessary or appropriate.

Respectfully submitted,

**SOUTHERN UNION COMPANY**

By its attorneys,



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Robert J. Keegan, Esq.  
Cheryl M. Kimball, Esq.  
Keegan, Werlin & Pabian, LLP  
265 Franklin Street  
Boston, MA 02110  
(617) 951-1400

Dated: August 26, 2004

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

D.T.E. 04-75-A

**PREFILED DIRECT TESTIMONY OF RICHARD N. MARSHALL**

**1 I. INTRODUCTION**

**2 Q. Please state your name and business address.**

3 A. My name is Richard N. Marshall. My business address is One PEI Center,  
4 Wilkes-Barre, Pennsylvania 18711.

**5 Q. By whom are you employed and in what capacity?**

6 A. I am the Vice President and Treasurer of Southern Union Company ("Southern  
7 Union" or the "Company") and am responsible for capital-market financing, debt  
8 management, cash management and investor relations activities of the Company.

**9 Q. Have you previously testified before this or any other Commission?**

10 A. Yes. Most recently, I submitted pre-filed testimony on behalf of the Company for  
11 approval and authorization from the Department of Telecommunications and  
12 Energy (the "Department") pursuant to G.L. c. 164, § 14 to issue up to \$400  
13 million in long-term debt and preferred securities (D.T.E. 04-36). I have testified  
14 in a number of other cases before the Department, including the Company's  
15 request to distribute a dividend of approximately 4.25 million shares of common  
16 stock to shareholders in 2004. Southern Union Company, D.T.E. 04-41 (2004).  
17 In addition to cases before the Department, I have testified before the  
18 Pennsylvania Public Utility Commission on behalf of PG Energy in connection  
19 with several regulatory filings.

1   **Q.    Would you please provide a brief description of the Company?**

2   A.    Southern Union is a Delaware corporation that is headquartered in Wilkes-Barre,  
3        Pennsylvania and engaged primarily in the transportation and distribution of  
4        natural gas. Through its Panhandle Energy subsidiary, the Company owns and  
5        operates Panhandle Eastern Pipe Line Company, Trunkline Gas Company, Sea  
6        Robin Pipeline Company, Trunkline LNG Company and Southwest Gas Storage  
7        Company. Collectively, these entities operate more than 10,000 miles of  
8        interstate pipelines transporting natural gas from the Gulf of Mexico, South Texas  
9        and the Panhandle regions of Texas and Oklahoma to major U.S. markets in the  
10       Midwest and Great Lakes region. Trunkline LNG, which is located in Lake  
11       Charles, Louisiana, is one of the nation's largest liquefied natural gas import  
12       terminals. Through its local distribution companies, Missouri Gas Energy, PG  
13       Energy and New England Gas Company, Southern Union also serves nearly one  
14       million natural gas end-user customers in Missouri, Pennsylvania, Massachusetts  
15       and Rhode Island. In Rhode Island and Massachusetts, Southern Union serves  
16       approximately 300,000 customers through its operating division, the New  
17       England Gas Company, with approximately 50,000 customers served in the Fall  
18       River and North Attleboro service areas.

19   **Q.    What is the scope of your testimony?**

20   A.    I am testifying in support of the Company's petition for approval to issue up to  
21        \$700 million in common equity relating to the Company's proposal to invest up to  
22        \$700 million in CCE Holdings, LLC ("CCE"), which is a joint venture between

1 Southern Union and an equity partner, GE Commercial Finance Energy Financial  
2 Services ("GE Energy Finance"). The Company's petition for approval of the  
3 investment in CCE under G.L. c. 164, § 17A is currently pending before the  
4 Department in D.T.E. 04-75. By virtue of its investment in CCE, the Company  
5 would acquire 50 percent of the equity interests of CrossCountry Energy LLC  
6 ("CrossCountry"), a holding company that owns and operates interstate  
7 distribution assets in four major geographical regions in 18 states.

8 My testimony demonstrates that the issuance will serve a legitimate utility  
9 purpose because it will further the Company's long-term strategic plan to own  
10 regulated interstate natural gas assets that will provide stable and predictable cash  
11 flows and that will create the opportunity to achieve operating synergies that will  
12 benefit other divisions of the Company, including those serving customers in  
13 Massachusetts. In this regard, the CrossCountry acquisition is consistent with the  
14 acquisition last year of Panhandle Eastern Pipe Line Company, the financing of  
15 which was approved by the Department on February 19, 2003 (D.T.E. 03-3).  
16 Accordingly, the proposed issuance will serve a legitimate utility purpose in that  
17 it will facilitate a transaction that will benefit Massachusetts customers.

18 My testimony also demonstrates that the proposed issuance will meet the "net-  
19 plant test" as established by the Department pursuant to G.L. c. 164, § 16.



1    **II.    REQUEST FOR APPROVAL OF FINANCING FOR CCE INVESTMENT**

2    **Q.    What is the Company's proposal in relation to the financing of its investment**  
3    **in CCE?**

4    A.    With the Department's approval, the Company intends to invest up to \$700  
5    million to acquire a 50 percent equity interest in CCE. In this filing, the Company  
6    is requesting authorization to issue common stock and equity units or a  
7    combination thereof, with an aggregate market value of up to \$700 million in  
8    order to fund the transaction. The Company anticipates completing the financing  
9    arrangements through one or more issuances following approval by the  
10    Department. Because the details of the arrangement are not final, the Company  
11    has not yet established what the total amount of the financing will be, nor has the  
12    Company determined what the actual breakdown will be in terms of the type of  
13    equity to be issued. However, the total amount of the financing will not exceed  
14    \$700 million. The Company intends to supplement this filing with those details  
15    as soon as those details become known.

16   **Q.    Has the Southern Union Board of Directors approved the stock issuance as of**  
17   **this date?**

18   A.    Yes. Southern Union's Executive Committee of the Board of Directors voted on  
19   the proposed issuance on June 18, 2004. The Company has provided a copy of  
20   the resolution as Exhibit SU-2.

21   **Q.    In addition to Southern Union's equity investment, how will the transaction**  
22   **with CCE be financed?**

23   A.    Southern Union will enter into an arrangement with GE Energy Finance to  
24   acquire 100 percent of the equity interests of CrossCountry through CCE, which

1 is a joint venture between Southern Union and GE Energy Finance. Southern  
2 Union will undertake an equity issuance to raise all or part of the capital needed to  
3 fund its portion of the investment, the approval of which is requested herein. The  
4 remainder of the purchase price will be funded through a combination of:  
5 (1) investment by GE Energy Finance; (2) the assumption of existing debt  
6 currently held by Transwestern totaling approximately \$461 million; and (3) a  
7 debt issuances at the CrossCountry and CCE levels.

8 **Q. How will Southern Union's investment be accounted for under Generally**  
9 **Accepted Accounting Principles?**

10 A. Southern Union Company's investment in CCE and its ownership of  
11 CrossCountry will be accounted for under the equity method of accounting, which  
12 is primarily covered by, but not limited to, FASB Statement No. 94  
13 "Consolidation of All Majority-Owned Subsidiaries" and by FIN 46  
14 "Consolidation of Variable Interest Entities." Unlike the transaction to acquire  
15 Panhandle Eastern Pipeline Company in 2003, the operations of CCE will not be  
16 subject to consolidation on Southern Union's books because the Company is not  
17 the primary beneficiary of the acquisition of the equity interests of CrossCountry  
18 (as it was with the Panhandle transaction). Under the terms and conditions of the  
19 joint venture agreement with GE Energy Finance, both the Company and GE  
20 Energy Finance will record a 50% investment on their respective balance sheets,  
21 which reflects their respective purchase cost of CCE.

1 Under the equity method of accounting set forth in the standards referenced  
2 above, the journal entry that will account for Southern Union's investment in  
3 CCE will be a debit to "Investment in CCE Holdings, LLC" on Southern Union's  
4 balance sheet. The debit amount will equal the total equity investment made by  
5 Southern Union in CCE.

6 **Q. Given this accounting, how has the Company calculated net plant?**

7 A. Consistent with the Department's directives in Southern Union Company,  
8 D.T.E. 04-41, at 14-17 (2004), the Company has computed the net plant test to  
9 reflect and be consistent with the journal entries that are required under GAAP.  
10 Thus, the Company has added its investment in CCE to its balance sheet as  
11 Property Plant and Equipment and has increased capitalization by the same  
12 amount to reflect the equity issuance that will take place to fund the investment.

13 **Q. Are the issuances of these securities subject to approval by any regulatory**  
14 **agency other than the Department?**

15 A. The issuance of securities of this type requires a filing in Pennsylvania. The  
16 Pennsylvania Public Utility Commission approved the issuance on  
17 August 19, 2004. No other approval is needed for the issuance of these securities.

**III. NET-PLANT TEST**

**Q. Please describe Exhibit SU-3.**

A. Exhibit SU-3 presents the pre-issuance comparison of net utility plant to total capitalization after certain adjustments are made to the most recent consolidated balance sheet consistent with Department precedent. As discussed below, Exhibit SU-4 presents the post-issuance comparison of net utility plant to total capitalization.

To calculate the pre-issuance net plant test, Column A of Exhibit SU-3 duplicates information provided in the Company's Form 8-K for the period ending June 30, 2004, which was filed with the Securities and Exchange Commission on August 2, 2004 (see Exhibit SU-5). The Company's Form 10-K will be filed with the Securities and Exchange Commission on or before September 1, 2004. The Form 10-K will be provided to the Department as soon as it is available.

Column B of Exhibit SU-3 sets forth four adjustments required under Department precedent, which are designed to: (1) remove the property, plant and equipment and associated capitalization for unregulated operations; (2) remove the net goodwill reflected on the Company's books and the associated capitalization; (3) remove retained earnings; and (4) remove Construction Work in Progress and non-regulated inventories from the net-plant calculation.

1 Column C of Exhibit SU-3 sets forth the adjusted, pre-issuance comparison of net  
2 utility plant to total capitalization. As shown therein, the Company's net utility  
3 plant as of June 30, 2004 exceeds total capitalization by \$73,007,000.

4 **Q. Please describe the present capitalization of the Company and indicate the**  
5 **ownership of its outstanding securities.**

6 A. As of June 30, 2004, there were approximately 77.1 million shares of common  
7 stock outstanding at a par value of \$1.00 per share, or approximately \$77,141,000.  
8 Premium on capital stock totaled \$974,287,000. Also as of June 30, 2004,  
9 treasury stock was valued at \$12,870,000. Treasury stock represents shares that  
10 are issued and have been repurchased by the Company, and therefore represent a  
11 deduction from common stockholders' equity. Common stock held in trust  
12 totaled \$3,853,000 and reflects shares held in various grantor trusts or "rabbi  
13 trusts," which are established to fund deferred compensation for key employees  
14 and directors of the Company. Similarly, the account titled Deferred  
15 Compensation Plans relates to common stock held in trust for directors of the  
16 Company. The Company had Accumulated Other Comprehensive Income of  
17 \$44,744,000 and retained earnings of \$46,692,000. Therefore, Common  
18 Stockholders' Equity totaled \$1,036,653,000.

19 The Company's long-term debt and capital lease obligations as of June 30, 2004  
20 totaled approximately \$2,359,612,000 (including \$230 million in preferred  
21 securities issued in October 2003 and \$125 million of mandatory convertible

1 shares issued by the Company in June 2003), resulting in a total capitalization of  
2 \$3,521,265,000.

3 **Q. Would you please review the adjustments to the consolidated balance sheet**  
4 **as of June 30, 2004, which are set forth in Exhibit SU-3?**

5 A. Yes. The Company has made a number of pro forma adjustments to its  
6 consolidated balance sheet for the purpose of preparing a comparison of the post-  
7 issuance net-utility plant to total capitalization. These adjustments are set forth in  
8 Exhibit SU-3. As discussed below, these adjustments are consistent with  
9 Department precedent.

10 First, in Column B, the Company removed from Property, Plant and Equipment,  
11 the net property, plant and equipment relating to unregulated business operations.  
12 Specifically, as shown in Exhibit SU-3, the Company reduced its net plant-in-  
13 service by \$14,251,000 (plant-in-service of approximately \$16,907,000, less  
14 accumulated depreciation of approximately \$2,656,000), to account for  
15 unregulated operations that are shown on a consolidated basis on the Company's  
16 balance sheet.

17 The unregulated property, plant and equipment removed from the net-utility  
18 plant-in-service is supported by a combination of debt and equity, but having been  
19 incorporated over time into the Company's overall operations, cannot be directly  
20 attributed to a particular source of capital. Accordingly, the Company has  
21 reduced its total capitalization in the amount of \$14,251,000 by reducing  
22 outstanding debt and equity in the same ratio that those categories of capital have

1 to the Company's total capitalization. This adjustment is consistent with the  
2 Department's treatment in previous cases presented by Southern Union and with  
3 the Department's precedent, which requires a utility to demonstrate that its net-  
4 utility plant-in-service will be equal to or exceed its total capitalization following  
5 the issuance of the security for which it is seeking authorization by the  
6 Department. This adjustment (to both net utility plant and total capitalization) is  
7 denoted on Exhibit SU-3 as adjustment (A).

8 Second, the Company adjusted the net-plant-test calculation to exclude the net  
9 goodwill totaling \$640,547,000 from the Company's overall capitalization. Over  
10 the past several years, the Company completed a number of acquisitions of  
11 regulated natural gas companies. The net goodwill of \$640,547,000 reflects the  
12 excess of the purchase prices of the acquired companies over the book value of  
13 the assets acquired. Thus, the Company reduced its total capitalization by  
14 \$640,547,000 to reflect the removal of the net goodwill from the net-plant-test  
15 calculation. This is consistent with the Department's treatment of additional  
16 purchase costs in previous cases presented by Southern Union and with prior  
17 Department precedent.

18 The net goodwill is supported by a combination of debt and equity, but having  
19 been incorporated over time into the Company's overall operations, cannot be  
20 directly attributed to a particular source of capital. Accordingly, the Company has  
21 reduced its total capitalization in the amount of \$640,547,000 by reducing

1 outstanding debt and equity in the same ratio that those categories of capital have  
2 to the Company's total capitalization. This adjustment (to both net-utility plant  
3 and total capitalization) is denoted on Exhibit SU-3 as adjustment (B).

4 Third, the Company excluded Retained Earnings of approximately \$46,692,000  
5 from its total capitalization. The exclusion of Retained Earnings is denoted as  
6 adjustment (C) on Exhibit SU-3. Also, the Company has made pro-forma  
7 adjustments to its consolidated balance sheet to remove Construction Work In  
8 Progress of \$169,264,000 (denoted as adjustment (D)), and to reduce net plant by  
9 \$7,424,000 for unregulated inventories that are shown on a consolidated basis on  
10 the Company's balance sheet (denoted as adjustment (E)), as calculated on  
11 Exhibit SU-3.

12 Fourth, the Company adjusted the amounts represented for Common  
13 Stockholders' Equity \$1 Par Value and Premium on Capital Stock to reflect the  
14 issuance of 4.8 million shares of common stock at \$18.75 per share, as approved  
15 by the Department in Southern Union Company, D.T.E. 04-36 (2004) (approving  
16 issuance of up to \$130 million). This issuance was consummated on  
17 July 30, 2004, and therefore, is not included in the Company's financial  
18 statements for the period ending June 30, 2004. The funds from this issuance  
19 were used to pay down bank debt, and coincident with the financing of the CCE  
20 transaction, the Company's bank debt will be used to extinguish the term loan



1 balance of \$111.1 million as discussed in D.T.E. 04-36. This adjustment is  
2 denoted on Exhibit SU-3 as adjustment (F).

3 Lastly, as reflected in adjustment (G), the Company adjusted total capitalization  
4 to include the full line of credit (\$400 million) available through the revolving  
5 credit facility that was approved by the Department in D.T.E. 04-36 despite the  
6 fact that the Company's actual total capitalization as of June 30, 2004 includes no  
7 outstanding borrowings under the revolving credit facility. The Company has  
8 utilized \$86,084,000 of borrowing capacity under the \$400,000,000 revolving  
9 credit facility to repay the balance of "Long-term debt-Current Portion" as of  
10 June 30, 2004.

11 **Q. Could you briefly explain the adjustments made in Exhibit SU-4.**

12 **A.** Yes. In Exhibit SU-4, the Company has depicted the capitalization of the  
13 Company following the equity issuance. Specifically, the Company adjusted for  
14 the issuance of up to \$700 million in common equity, which is denoted in  
15 adjustment (A). Adjustment A would result from the sale of approximately 36.84  
16 million shares at \$19 per share because Common Stockholders' Equity \$1 Par  
17 Value would increase to \$118,783,000 and Premium on Capital Stock would  
18 increase to \$1,529,874,000.

19 As shown by the calculations set forth in Exhibit SU-4, the Company's net plant  
20 following the issuance and investment in CCE would exceed capitalization by  
21 approximately \$73,007,000.

1    **Q.**    **Does this complete your testimony?**

2    **A.**    Yes, it does.

**SOUTHERN UNION COMPANY**  
**RESOLUTIONS ADOPTED BY THE BOARD OF DIRECTORS**  
**AT A MEETING HELD**

**June 18, 2004**

**WHEREAS**, this Board previously has authorized and empowered the Company to enter into a joint venture with an affiliate of General Electric Capital Corporation ("GE Capital"), which joint venture is to be know as CrossCountry Holdings, LLC ("CrossCountry Holdings"), for the purpose of jointly acquiring all of the equity interests in CrossCountry Energy, LLC ("CrossCountry Energy") from Enron Corp. ("Enron") and certain affiliates thereof;

**WHEREAS**, pursuant to such prior authorization, on May 21, 2004 CrossCountry Holdings submitted an offer to purchase the equity interests in CrossCountry Energy;

**WHEREAS**, in lieu of accepting the offer submitted by CrossCountry Holdings, Enron accepted an alternative offer submitted by NuCoastal Corp. ("NuCoastal"), and Enron and its affiliates entered into a Purchase Agreement with NuCoastal (the "NuCoastal Agreement") dated as of May 21, 2004 providing for the sale of the equity interests in CrossCountry Energy to NuCoastal;

**WHEREAS**, as debtors-in-possession pursuant to Chapter 11 of the U.S. Bankruptcy Code, Enron and certain of its affiliates are subject to the jurisdiction of the U.S. Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court");

**WHEREAS**, a hearing is scheduled to be held in the Bankruptcy Court on June 24, 2004, at which Enron will seek to have the Bankruptcy Court approve the breakup fee set forth in the NuCoastal Agreement and grant NuCoastal "stalking horse" status for purposes of the sale of the equity interests in CrossCountry Energy to be made pursuant to Sections 105 and 363 of the U.S. Bankruptcy Code;

**WHEREAS**, since May 21, 2004, representatives of the Company and GE Capital have communicated to members of the law firm of Milbank, Tweed, Hadley & McCloy ("Milbank"), who are counsel to the committee of unsecured creditors of Enron (the "Creditors' Committee"), their continuing interest in acquiring the equity interests in CrossCountry Energy;

**WHEREAS**, representatives of the Company and GE Capital have submitted to Milbank a form of Purchase Agreement, a copy of which is has been furnished to the Board (the "CCH Agreement"), pursuant to which they have expressed a willingness to purchase the equity interests in CrossCountry Energy, subject to the approval by their respective boards of directors;

**WHEREAS**, members of the Company's executive management have advised the Board that they believe that the purchase price and other terms set forth in the CCH Agreement are more favorable to Enron and its creditors that those set forth in the NuCoastal Agreement, and that upon formal submission of the CCH Agreement the Creditors' Committee is likely to

withdraw its support for the NuCoastal Agreement in and announce their support for the CCH Agreement; and

**WHEREAS**, members of the Company's executive management also have advised the Board that they believe that NuCoastal may increase the purchase price that it is willing to pay for the equity interests in CrossCountry Energy in response to the offer reflected in the CCH Agreement;

**NOW THEREFORE, RESOLVED**, that the proper officers of the Company be, and they each hereby are, authorized, empowered and directed, for and on behalf of the Company, to enter into the Letter Agreement regarding Joint Offer to Acquire CrossCountry Energy and the related Preliminary Term Sheet for \$1 Billion of LLC interests with GE Capital or an affiliate thereof, substantially in the form of such documents as previously provided to the Board, with such changes thereto as such officers, in their discretion, may deem necessary or desirable; and

**FURTHER RESOLVED**, that the proper officers of the Company be, and they hereby are, authorized, empowered and directed, for and on behalf of the Company, and for and on behalf of CrossCountry Holdings in their respective capacities as officers thereof, to enter into the following documents pertaining to the financing for the acquisition of the equity interests in CrossCountry Energy, substantially in the form of such documents as previously provided to the Board, with such changes thereto as such officers, in their discretion, may deem necessary or desirable:

- Commitment Letter (pertaining to \$700MM bridge debt facility for CCE Holdings and \$650MM refinancing of Transwestern credit facility);
- Fee Letter relating to the Commitment Letter;
- Commitment Letter for Equity Bridge Facility (pertaining to a \$545MM bridge loan to Southern Union Panhandle LLC)
- Fee Letter for Equity Bridge Facility relating to the Commitment Letter for Equity Bridge Facility;
- Bond Engagement Letter (pertaining to \$700MM permanent bond financing for CCE Holdings); and
- Engagement Letter (pertaining to the underwritten offering of \$545MM of equity securities of Southern Union Company);

**FURTHER RESOLVED**, that the proper officers of the Company be, and they hereby are, authorized, empowered and directed, for and on behalf of the Company, and for and on behalf of CrossCountry Holdings in their respective capacities as officers thereof, to execute and deliver the CCH Agreement, with such changes thereto (including without limitation changes to the purchase price payable thereunder) as they in their discretion may deem necessary and appropriate;

**FURTHER RESOLVED**, that the proper officers of the Company be, and they hereby are, authorized, empowered and directed, for and on behalf of the Company, and for and on behalf of CrossCountry Holdings in their respective capacities as officers thereof, to do such further acts and things, and to execute and deliver such other documents, as they in their

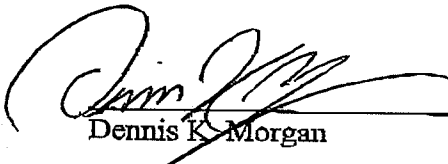
discretion may deem necessary or appropriate to effectuate the purposes of the foregoing resolutions;

**FURTHER RESOLVED**, that all actions taken to date by officers of the Company or by representatives of the Company acting at the direction of the officers of the Company in connection with such transactions be, and hereby are, ratified, confirmed and approved in all respects, and

**FURTHER RESOLVED**, that for purposes of the foregoing resolutions, the proper officers of the Company shall be its President & Chief Operating Officer; its Executive Vice President & Chief Financial Officer; and its Executive Vice President – Administration, General Counsel & Secretary.

\* \* \*

The undersigned, Dennis K. Morgan, Executive Vice President – Administration, General Counsel and Secretary, hereby certifies that the foregoing is a true and correct copy of resolutions duly adopted by the Board of Directors of the Company at a meeting held on June 18, 2004.

  
Dennis K. Morgan

**Southern Union Company**  
**Net Plant Test**  
(Exhibit SU-3)

	As of 30-Jun-04	Adjustments (in 000's)	Adj Net Plant 30-Jun-04
<b>Capitalization</b>			
Common stockholders' equity			
Common stock, \$1 par	77,141	4,800 (F)	81,941
Premium on capital stock	974,287	(188,576) (B)	886,716
		(4,195) (A)	
		85,200 (F)	
Less: treasury stock, at cost	(12,870)		(12,870)
Less: common stock held in trust	(3,853)		(3,853)
Deferred compensation plans	-		-
Accumulated other comprehensive income	(44,744)		(44,744)
Retained earnings	46,692	(46,692) (C)	-
Total common stockholders' equity	1,036,653	(149,463)	887,190
<b>Mandatory Convertible Securities</b>	125,000		125,000
Long-term debt (including Preferred Stock)	2,259,615 N.1	(451,971) (B)	2,121,501
		(10,056) (A)	
		(76,087) (F)	
		400,000 (G)	
Long-term debt - Current Portion	99,997	(13,913) (F)	-
Total Long-term debt	2,359,612	(86,084) (G)	2,121,501
<b>Total capitalization</b>	<b>3,521,265</b>	<b>(387,574)</b>	<b>3,133,691</b>
<b>Property plant and equipment</b>			
Plant in service	3,772,616	(16,907) (A)	3,755,709
Construction work in progress	169,264	(169,264) (D)	-
Subtotal	3,941,880	(186,171)	3,755,709
Less: accumulated depreciation	(734,367)	2,656 (A)	(731,711)
Net property, plant and equipment	3,207,513	(183,515)	3,023,998
Plus: Inventory	190,124	(7,424) (E)	182,700
<b>Total assets to be funded</b>	<b>3,397,637</b>	<b>(190,939)</b>	<b>3,206,698</b>
<b>Excess of net utility plant and other assets over total capitalization after adjustments</b>			<b>73,007</b>
Net Goodwill on Books	640,547	(640,547) (B)	

**Note 1:** This amount includes \$230 million of preferred securities

- (A) Elimination of unregulated property from plant and capitalization.  
(B) Apportionment of Goodwill between debt and equity.  
(C) Elimination of retained earnings from net plant test.  
(D) Elimination of CWIP from net plant test.  
(E) Elimination of unregulated inventories from net plant test.  
(F) Incorporates issuance on July 30, 2004 of 4.8 million shares at \$18.75 per share and pay down of \$90 million of the \$111.1 million balance on term loan.  
(G) Incorporates full revolving credit line of \$400 million, although current outstanding balance is \$50 million as of August 25, 2004 and the repayment of the balance of Long-term debt - Current Portion" with borrowings under the \$400 million revolving credit facility.

**Southern Union Company**  
**Post-Issuance Comparison of Net-Utility Plant (adjusted) to Total Capitalization (adjusted)**

(Exhibit SU-4)

	<u>Post-Issuance</u> (in \$000's)	<u>Total</u> (in 000's)
<b><u>Property Plant and Equipment</u></b>		
Net-Utility Plant In Service	\$ 3,755,709	
Less: Accumulated Depreciation	(731,711)	
Subtotal	<u>3,023,998</u>	
Plus: Inventory Held By Regulated Utilities	<u>182,700</u>	
Investment in CCE Holdings, LLC	700,000	
<b><u>Total Property Plant and Equipment</u></b>	<b><u>\$ 3,906,698</u></b>	<b><u>\$ 3,906,698</u></b>
<b><u>Capitalization</u></b>		
Common stockholders' equity		
Common stock, \$1 par	\$ 118,783	(a)
Premium on capital stock	1,529,874	(a)
Less: treasury stock, at cost	(12,870)	
Less: common stock held in trust	(3,853)	
Accumulated other comprehensive income	(44,744)	
Deferred compensation plans	-	
Total Common Stockholders' Equity	<u>1,587,190</u>	
Mandatory Convertible Securities	125,000	
Long-term Debt and Capital Lease Obligation	2,121,501	
Long-term Debt - Current Portion	-	
Total Long-term Debt	<u>2,246,501</u>	
<b><u>Total Capitalization</u></b>	<b><u>\$ 3,833,691</u></b>	<b><u>\$ 3,833,691</u></b>
<b>Net-Utility Plant in Excess of Total Capitalization</b>		<b><u>\$ 73,007</u></b>

(a) Shows common stock issuance of \$700 million (38.63 million shares at \$19 per share).

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D. C. 20549**

**FORM 8-K  
CURRENT REPORT**

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) August 2, 2004

**SOUTHERN UNION COMPANY**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation)

1-6407  
(Commission File Number)

75-0571592  
(I.R.S. Employer  
Identification No.)

One PEI Center  
Wilkes-Barre, Pennsylvania  
(Address of principal executive offices)

18711  
(Zip Code)

Registrant's telephone number, including area code: (570) 820-2400

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## ITEM 12. DISCLOSURE OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On August 2, 2004, Southern Union Company ("Southern Union" or the "Company") will release summary financial information to the general public, including the investment community, regarding the Company's operating performance for the three- and twelve-month periods ended June 30, 2004 and 2003. The financial information released is included herein. The following information is summary in nature and should not be considered complete financial statements.

99.1 Press Release issued by Southern Union dated August 2, 2004.

The information furnished under Item 12 of this Current Report on Form 8-K, including Exhibit 99.1 hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933.

This release and other Company reports and statements issued or made from time to time contain certain "forward-looking statements" concerning projected future financial performance, expected plans or future operations. Southern Union cautions that actual results and developments may differ materially from such projections or expectations.

Investors should be aware of important factors that could cause actual results to differ materially from the forward-looking projections or expectations. These factors include, but are not limited to: cost of gas; gas sales volumes; gas throughput volumes and available sources of natural gas; discounting of transportation rates due to competition; customer growth; abnormal weather conditions in the Company's service territories; impact of relations with labor unions of bargaining-unit employees; the receipt of timely and adequate rate relief and the impact of future rate cases or regulatory rulings; the outcome of pending and future litigation; the speed and degree to which competition is introduced to our gas distribution business; new legislation and government regulations and proceedings affecting or involving the Company; unanticipated environmental liabilities; the Company's ability to comply with or to challenge successfully existing or new environmental regulations; changes in business strategy and the success of new business ventures; exposure to customer concentration with a significant portion of revenues realized from a relatively small number of customers and any credit risks associated with the financial position of those customers; factors affecting operations such as maintenance or repairs, environmental incidents or gas pipeline system constraints; our or any of our subsidiaries debt securities ratings; the economic climate and growth in our industry and service territories and competitive conditions of energy markets in general; inflationary trends; changes in gas or other energy market commodity prices and interest rates; the current market conditions causing more customer contracts to be of shorter duration, which may increase revenue volatility; the possibility of war or terrorist attacks; the nature and impact of any extraordinary transactions such as any acquisition or divestiture of a business unit or any assets.

**SOUTHERN UNION COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
(Unaudited)

	Three Months Ended June 30,		Twelve Months Ended June 30,	
	2004	2003	2004	2003
	(thousands of dollars, except shares and per share amounts)			
Operating revenues .....	\$ 286,888	\$ 207,030	\$ 1,799,974	\$ 1,188,507
Cost of gas and other energy .....	(98,062)	(110,653)	(864,438)	(724,611)
Revenue-related taxes .....	(5,983)	(6,861)	(45,395)	(40,485)
Operating margin .....	182,843	89,516	890,141	423,411
Operating expenses:				
Operating, maintenance and general .....	103,034	61,922	411,811	193,745
Depreciation and amortization .....	29,305	17,570	118,755	60,642
Taxes, other than on income and revenues .....	14,698	7,508	54,048	26,653
Total operating expenses .....	147,037	87,000	584,614	281,040
Net operating revenues .....	35,806	2,516	305,527	142,371
Other income (expense):				
Interest .....	(30,212)	(21,760)	(127,867)	(83,343)
Dividends on preferred securities of subsidiary trust .....	--	(2,370)	--	(9,480)
Other, net .....	(304)	(555)	5,468	18,394
Total other expenses, net .....	(30,516)	(24,685)	(122,399)	(74,429)
Earnings (loss) from continuing operations before income taxes (benefit) .....	5,290	(22,169)	183,128	67,942
Federal and state income taxes (benefit) .....	1,347	(10,271)	69,103	24,273
Net earnings (loss) from continuing operations .....	3,943	(11,898)	114,025	43,669
Discontinued operations:				
Earnings from discontinued operations before income taxes .....	--	--	--	84,773
Federal and state income taxes (benefit) .....	--	(1,264)	--	52,253
Net earnings from discontinued operations .....	--	1,264	--	32,520
Net earnings (loss) .....	3,943	(10,634)	114,025	76,189
Preferred stock dividends .....	(4,341)	--	(12,686)	--
Net earnings (loss) available for common shareholders	\$ (398)	\$ (10,634)	\$ 101,339	\$ 76,189
Net earnings (loss) available for common shareholders from continuing operations per share:				
Basic .....	\$ (0.01)	\$ (0.20)	\$ 1.41	\$ 0.76
Diluted .....	\$ (0.01)	\$ (0.20)	\$ 1.37	\$ 0.74
Net earnings (loss) available for common shareholders per share:				
Basic .....	\$ (0.01)	\$ (0.18)	\$ 1.41	\$ 1.33
Diluted .....	\$ (0.01)	\$ (0.18)	\$ 1.37	\$ 1.29
Weighted average shares outstanding – basic .....	71,997,879	59,807,049	71,848,259	57,176,843
Weighted average shares outstanding – diluted .....	71,997,879	59,807,049	73,993,300	59,017,861

See Notes to Condensed Consolidated Financial Statements.

**SOUTHERN UNION COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
(Unaudited)

	June 30, 2004	June 30, 2003
	(thousands of dollars)	
ASSETS		
Property, plant and equipment:		
Plant in service .....	\$ 3,941,880	\$ 3,786,025
Less accumulated depreciation and amortization .....	(734,367)	(641,225)
Net property, plant and equipment .....	<u>3,207,513</u>	<u>3,144,800</u>
Current assets:		
Cash and cash equivalents .....	19,973	86,997
Accounts receivable, billed and unbilled, net .....	181,924	192,402
Federal and state taxes receivable .....	17,385	6,787
Inventories .....	190,124	173,757
Deferred gas purchase costs .....	--	24,603
Gas imbalances – receivable .....	22,045	34,911
Prepayments and other .....	<u>27,262</u>	<u>18,971</u>
Total current assets .....	<u>458,713</u>	<u>538,428</u>
Goodwill, net .....	640,547	642,921
Deferred charges .....	187,961	188,261
Investment securities, at cost .....	8,038	9,641
Other .....	<u>69,895</u>	<u>73,674</u>
Total assets .....	<u>\$ 4,572,667</u>	<u>\$ 4,597,725</u>
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Stockholders' equity .....	\$ 1,266,654	\$ 920,418
Preferred stock of subsidiary trust, \$25 par .....	--	100,000
Long-term debt and capital lease obligation .....	<u>2,154,615</u>	<u>1,611,653</u>
Total capitalization .....	<u>3,421,269</u>	<u>2,632,071</u>
Current liabilities:		
Long-term debt due within one year .....	99,997	734,752
Notes payable .....	21,000	251,500
Accounts payable .....	96,714	112,840
Federal, state and local taxes .....	25,411	13,530
Gas imbalances – payable .....	72,057	64,519
Other .....	<u>145,779</u>	<u>183,652</u>
Total current liabilities .....	<u>460,958</u>	<u>1,360,793</u>
Deferred credits and other liabilities .....	314,131	322,154
Accumulated deferred income taxes .....	<u>376,309</u>	<u>282,707</u>
Total capitalization and liabilities .....	<u>\$ 4,572,667</u>	<u>\$ 4,597,725</u>

See Notes to Condensed Consolidated Financial Statements.

**SOUTHERN UNION COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1 -- BASIS OF PRESENTATION**

The condensed consolidated financial statements have been prepared by Southern Union Company ("Southern Union" or the "Company") and certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted. Certain reclassifications have been made to prior period financial statements to conform with the current period presentation. The condensed consolidated financial statement presentation in this report will produce the same net income as the consolidated financial statements and, in management's opinion, is a fair representation of the operations of the Company.

Effective June 11, 2003, the Company acquired Panhandle Energy from CMS Energy Corporation. The acquisition was accounted for using the purchase method of accounting in accordance with accounting principles generally accepted in the United States of America by allocating the purchase price and acquisition costs incurred by the Company to Panhandle Energy's net assets as of the acquisition date. The Panhandle Energy assets acquired and liabilities assumed have been recorded at their estimated fair value as of the acquisition date based on the results of outside appraisals. Panhandle Energy's results of operations have been included in the Condensed Consolidated Statement of Operations since June 11, 2003. Thus, the Condensed Consolidated Statement of Operations for the periods subsequent to the acquisition is not comparable to the same periods in prior years.

**NOTE 2 -- OTHER INCOME (EXPENSE), NET**

Other expense for the three-month period ended June 30, 2004 was \$304,000 compared with \$555,000 for the same period in 2003. Other expense for the three-month periods ended June 30, 2004 and 2003 include several items, none of which are individually significant.

Other income for the twelve-month period ended June 30, 2004 was \$5,468,000 compared with \$18,394,000 for the same period in 2003. Other income for the twelve-month period ended June 30, 2004 includes a gain of \$6,354,000 on the early extinguishment of debt and income of \$2,230,000 generated from the sale and/or rental of gas-fired equipment and appliances by various operating subsidiaries. These items were partially offset by charges of \$1,603,000 and \$1,150,000 to reserve for the impairment of Southern Union's investments in a technology company and in an energy-related joint venture, respectively, and \$836,000 of legal costs associated with the collection of damages from former Arizona Corporation Commissioner James Irvin related to the Southwest litigation. Other income for the twelve-month period ended June 30, 2003 includes a gain of \$22,500,000 on the settlement of the Southwest litigation, and income of \$2,016,000 generated from the sale and/or rental of gas-fired equipment and appliances. These items were partially offset by \$5,949,000 of legal costs related to the Southwest litigation and \$1,298,000 of selling costs related to the Texas operations' disposition.

**NOTE 3 -- REPORTABLE SEGMENTS**

The Company's operations include two reportable segments. The Transportation and Storage segment is primarily engaged in the interstate transportation and storage of natural gas in the Midwest and Southwest, and also provides LNG terminalling and regasification services. Its operations are conducted through Panhandle Energy, which the Company acquired on June 11, 2003. The Distribution segment is primarily engaged in the local distribution of natural gas in Missouri, Pennsylvania, Rhode Island and Massachusetts. Its operations are conducted through the Company's three regulated utility divisions: Missouri Gas Energy, PG Energy and New England Gas Company.

Revenue included in the All Other category is attributable to several operating subsidiaries of the Company: PEI Power Corporation generates and sells electricity; PG Energy Services Inc. offers appliance service contracts; ProvEnergy Power Company LLC ("ProvEnergy Power"), which was sold effective October 31, 2003, provided outsourced energy management services and owned 50% of Capital Center Energy Company LLC, a joint venture formed between ProvEnergy and ERI Services, Inc. to provide retail power and conditioned air; and Alternate Energy Corporation provides energy consulting services. None of these businesses have ever met the quantitative thresholds for determining reportable segments individually or in the aggregate. The Company also has corporate operations that do not generate any revenues.

**SOUTHERN UNION COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The Company evaluates segment performance based on several factors, of which the primary financial measure is net operating revenues. Net Operating Revenues is defined as operating margin, less operating, maintenance and general expenses, depreciation and amortization, and taxes other than on income and revenues.

The following table sets forth certain selected financial information for the Company's segments for the three- and twelve-month periods ended June 30, 2004 and 2003. Financial information for the Transportation and Storage segment reflects the operations of Panhandle Energy beginning on its acquisition date of June 11, 2003. There were no material intersegment revenues during the periods presented.

	Three Months Ended June 30,		Twelve Months Ended June 30,	
	2004	2003	2004	2003
	(thousands of dollars)			
Revenues from external customers:				
Distribution .....	\$ 177,170	\$ 180,886	\$ 1,304,405	\$ 1,158,964
Transportation and Storage .....	108,341	24,529	491,083	24,529
All Other .....	1,377	1,615	4,486	5,014
Total consolidated operating revenues .....	<u>\$ 286,888</u>	<u>\$ 207,030</u>	<u>\$ 1,799,974</u>	<u>\$ 1,188,507</u>
Operating margin:				
Distribution .....	\$ 73,239	\$ 63,682	\$ 395,373	\$ 394,760
Transportation and Storage .....	108,341	24,529	491,083	24,529
All Other .....	1,263	1,305	3,685	4,122
Total consolidated operating margin .....	<u>\$ 182,843</u>	<u>\$ 89,516</u>	<u>\$ 890,141</u>	<u>\$ 423,411</u>
Net operating revenues (loss):				
Distribution .....	\$ 2,290	\$ (5,307)	\$ 118,826	\$ 142,762
Transportation and Storage .....	34,207	9,635	193,702	9,635
All Other .....	(61)	348	(3,514)	13
Total segment net operating revenues .....	36,436	4,676	309,014	152,410
Reconciling item-Corporate .....	(630)	(2,160)	(3,487)	(10,039)
Total consolidated net operating revenues .....	<u>\$ 35,806</u>	<u>\$ 2,516</u>	<u>\$ 305,527</u>	<u>\$ 142,371</u>
Reconciliation of net operating revenues to earnings from continuing operations before income taxes:				
Net operating revenues .....	\$ 35,806	\$ 2,516	\$ 305,527	\$ 142,371
Interest .....	(30,212)	(21,760)	(127,867)	(83,343)
Dividends on preferred securities of subsidiary trust .....	--	(2,370)	--	(9,480)
Other income (expense), net .....	(304)	(555)	5,468	18,394
Earnings (loss) from continuing operations before income taxes (benefit) .....	<u>\$ 5,290</u>	<u>\$ (22,169)</u>	<u>\$ 183,128</u>	<u>\$ 67,942</u>

	June 30, 2004	June 30, 2003
	(thousands of dollars)	
Total assets:		
Distribution .....	\$ 2,220,391	\$ 2,243,257
Transportation and Storage .....	2,197,289	2,212,467
All Other .....	42,133	50,073
Total segment assets .....	4,459,813	4,505,797
Reconciling item-Corporate .....	112,854	91,928
Total consolidated assets .....	<u>\$ 4,572,667</u>	<u>\$ 4,597,725</u>

**SOUTHERN UNION COMPANY AND SUBSIDIARIES**  
**SELECTED STATISTICAL DATA**

The following table sets forth gas throughput and related information for the Company's Distribution segment and Transportation and Storage segment for the three- and twelve-month periods ended June 30, 2004 and 2003:

	<u>Three Months</u> <u>Ended June 30,</u>		<u>Twelve Months</u> <u>Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>Distribution Segment</b>				
Average number of customers served:				
Residential.....	847,155	844,483	844,385	840,942
Commercial .....	102,930	101,369	102,139	100,358
Industrial and irrigation .....	427	432	437	444
Public authorities and other .....	388	378	387	378
Total average gas sales customers .....	950,900	946,662	947,348	942,122
Transportation customers .....	2,685	2,507	2,630	2,737
Total average gas sales and transportation customers .....	<u>953,585</u>	<u>949,169</u>	<u>949,978</u>	<u>944,859</u>
Gas sales in millions of cubic feet (MMcf):				
Residential.....	14,618	15,669	78,207	83,674
Commercial .....	5,781	6,106	32,284	33,856
Industrial and irrigation .....	713	569	2,685	2,822
Public authorities and other .....	42	54	315	362
Gas sales billed .....	21,154	22,398	113,491	120,714
Net change in unbilled gas sales .....	(7,907)	(5,922)	(1,220)	1,401
Total gas sales .....	13,247	16,476	112,271	122,115
Gas transported .....	12,949	13,855	60,848	66,218
Total gas sales and gas transported .....	<u>26,196</u>	<u>30,331</u>	<u>173,119</u>	<u>188,333</u>
Gas sales revenues (thousands of dollars):				
Residential.....	\$ 175,859	\$ 173,210	\$ 886,825	\$ 803,000
Commercial .....	63,535	59,948	337,945	292,497
Industrial and irrigation .....	6,394	4,526	23,861	21,870
Public authorities and other .....	451	551	3,113	3,178
Gas revenues billed .....	246,239	238,235	1,251,744	1,120,545
Net change in unbilled gas sales revenues .....	(78,039)	(67,045)	8,184	(9,383)
Total gas sales revenues .....	168,200	171,190	1,259,928	1,111,162
Gas transportation revenues .....	7,062	7,466	34,409	38,734
Total gas sales and gas transportation revenues .....	<u>\$ 175,262</u>	<u>\$ 178,656</u>	<u>\$ 1,294,337</u>	<u>\$ 1,149,896</u>
Gas sales revenue per thousand cubic feet billed:				
Residential.....	\$ 12.03	\$ 11.05	\$ 11.34	\$ 9.60
Commercial .....	10.99	9.82	10.47	8.64
Industrial and irrigation .....	8.97	7.95	8.89	7.75
Public authorities and other .....	10.74	10.20	9.88	8.78
Weather:				
Degree days:				
Missouri Gas Energy service territories.....	348	373	4,770	5,105
PG Energy service territories .....	679	869	6,240	6,654
New England Gas Company service territories.....	705	954	5,644	6,143
Percent of 30-year measure:				
Missouri Gas Energy service territories.....	76%	82%	92%	98%
PG Energy service territories .....	90%	111%	100%	106%
New England Gas Company service territories.....	93%	126%	98%	107%

**Transportation and Storage Segment (1)**

Gas transported in billions of British thermal units (Bbtu).....	302,955	68,815	1,321,262	68,815
Gas transportation revenues (thousands of dollars) .....	\$ 81,758	\$ 18,504	\$ 382,715	\$ 18,504

(1) Panhandle Energy's results of operations have been included in the Condensed Consolidated Statement of Operations since June 11, 2003. Thus, gas transportation revenues and related volumes for the periods subsequent to the acquisition are not comparable to the same periods in prior years.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHERN UNION COMPANY  
(Registrant)

Date August 2, 2004

By /s/ DAVID J. KVAPIL  
David J. Kvapil  
Executive Vice President and Chief Financial Officer

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHERN UNION COMPANY  
(Registrant)

Date August 2, 2004

By \_\_\_\_\_  
David J. Kvapil  
Executive Vice President and Chief Financial Officer



## EXHIBIT INDEX

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
99.1	Press Release issued by Southern Union dated August 2, 2004

04-14

For further information:

Jack Walsh

Director of Investor Relations

Southern Union Company

570/829-8662

**SOUTHERN UNION COMPANY REPORTS RECORD FISCAL 2004 RESULTS;  
EARNINGS FROM CONTINUING OPERATIONS RISE 132%  
Web Cast & Conference Call at 2 P.M. ET Today**

**Wilkes-Barre, PA – (BUSINESS WIRE) – August 2, 2004** – Southern Union Company (“Southern Union” or the “Company”) (NYSE: SUG) today reported record net earnings of \$101,339,000 (\$1.37 per diluted share, hereafter referred to as “per share”) for the fiscal year ended June 30, 2004, compared with net earnings of \$76,189,000 (\$1.29 per share) for the fiscal year ended June 30, 2003. Net earnings from continuing operations were \$101,339,000 (\$1.37 per share) for fiscal 2004 compared with \$43,669,000 (\$.74 per share) for fiscal 2003, an increase of 132%.

Thomas F. Karam, President and Chief Operating Officer of Southern Union, stated, “We are extremely happy with our record performance in fiscal 2004. These results represent follow-through on our guidance and confirm the successful integration of Panhandle Energy.” He added, “It’s an exciting time for Southern Union. We are on the threshold of unprecedented growth through our expansions at Trunkline LNG, our pending rate case at Missouri Gas Energy and our potential acquisition of CrossCountry Energy. We are poised and ready.”

For the three months ended June 30, 2004, Southern Union recorded a net loss from continuing operations of \$398,000 (\$.01 per average common share) compared with a net loss from continuing operations of \$11,898,000 (\$.20 per average common share) in 2003. Prior to Southern Union’s acquisition of Panhandle Eastern Pipe Line Company, LP and its subsidiaries (collectively “Panhandle Energy”) in June 2003, the Company typically recorded a fourth quarter loss due to the seasonal nature of its natural gas

- MORE -

distribution business. The Company expects that its acquisition of Panhandle Energy, whose transmission and liquefied natural gas businesses generally are less seasonal in nature than Southern Union’s distribution segment, will enable the Company to achieve improved fourth quarter results in the future.

**Factors Impacting Fiscal 2004 relative to Fiscal 2003:**

- June 2003 - Southern Union completed its acquisition of Panhandle Energy from CMS Energy; for the fiscal year ended June 30, 2004, Panhandle Energy contributed net earnings of \$94 million on a stand-alone basis. Included in this amount are \$10.5 million of after-tax earnings from the gain on the repurchase of debt and the amortization of debt premiums established in purchase accounting.
- January 2003 - The Company sold Southern Union Gas Company, its Texas-based natural gas operating division, and other related assets for approximately \$437 million in cash. Net earnings from the discontinued Texas operations included in fiscal 2003 were \$32.5 million (\$.55 per share), including an \$18.9 million (\$.32 per share) after-tax gain on sale.
- June 2003 - Southern Union issued \$175 million of common stock and \$125 million of equity-linked securities in connection with its Panhandle Energy acquisition.
- October 2003 - The Company issued \$230 million of non-cumulative 7.55% preferred stock. The proceeds were used to redeem \$100 million of 9.48% Trust Preferred Securities and other short-term credit facilities.
- Southern Union's distribution operations experienced weather during fiscal 2004 that was 8% warmer than fiscal 2003 and up to 8% warmer than normal.
- Operating and Maintenance expense for Southern Union's distribution segment was negatively impacted during fiscal 2004 due primarily to the following factors: increased pension expense of approximately \$5.1 million (\$.07 per share), net of tax; increased bad debt expense as a result of higher gas costs of approximately \$4.0 million (\$.05 per share), net of tax; and increased insurance and medical costs of approximately \$2.9 million (\$.04 per share), net of tax.

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- Fiscal 2003 results included an after-tax gain of \$14.5 million (\$.25 per share) on the settlement of the Company's claims related to the Southwest Gas case. This gain was partially offset by related litigation expense totaling \$3.8 million (\$.06 per share), net of tax.

**Other Events that Occurred in Fiscal 2004:**

- August 2003 - Panhandle Energy refinanced approximately \$513 million of senior notes and debentures through the issuance of \$300 million of 4.80% senior notes due 2008 and \$250 million of 6.05% senior notes due 2013.
- November 2003 - Trunkline LNG, a subsidiary of Panhandle Energy and the nation's largest liquefied natural gas ("LNG") import facility, broke ground for its Phase I expansion. The expansion will double the plant's current sustained sendout capacity from 630 million cubic feet per day to 1.2

billion cubic feet per day (“Bcf/d”) while increasing storage capacity by approximately 50% from 6.3 Bcf to 9 Bcf. The Phase I expansion is scheduled to be operational by December 31, 2005.

- February 2004 - Trunkline LNG announced a Phase II modification of its facility that will increase sustained sendout capacity to 1.8 Bcf/d with a peak capacity of 2.1 Bcf/d. The modification is scheduled to be operational in early- to mid-calendar year 2006. Simultaneously, Trunkline Gas Company, another Panhandle Energy subsidiary, announced plans to construct a 23-mile, 30” take-away pipeline (the “Trunkline Loop”) to accommodate increased sendout from the LNG terminal, as noted above. The Trunkline Loop will provide transportation from the terminal to the mainline of Trunkline Gas Company. The project is expected to be operational by mid-calendar year 2005.
- March 2004 - Panhandle Energy issued \$200 million of 2.75% senior notes due March 2007. Proceeds from the issuance were used to refinance maturing, higher-cost indebtedness.
- May 2004 – Southern Union closed on a \$400 million unsecured revolving credit

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facility for a five-year term. The facility replaces a \$150 million revolving credit facility and a \$225 million revolving credit facility, which expired in April 2004 and May 2004, respectively.

#### **Recent Events:**

- In June 2004, CCE Holdings, LLC (“CCE Holdings”), a joint venture of Southern Union and GE Commercial Finance Energy Financial Services, entered into a Purchase Agreement (the “Agreement”) with Enron Corp. and its affiliates (collectively “Enron”) for the purchase of 100% of the equity interests of CrossCountry Energy, LLC (“CrossCountry”) – Enron’s major remaining North American natural gas transmission assets. The Agreement was granted “Stalking Horse” status by an Order entered by the U.S. Bankruptcy Court for the Southern District of New York, by which Order other interested parties may submit offers for CrossCountry on higher and/or better terms. With its offer of \$2.35 billion, including assumed debt of \$461 million, CCE Holdings’ bid is the benchmark heading into the September 1, 2004 auction. If it is the successful bidder, CCE Holdings expects to close the acquisition by mid-December 2004.
- In July 2004, Southern Union issued 12,650,000 (which includes the exercise of the 1,650,000-share over-allotment option) shares of its common stock at \$18.75 per share. Of those shares, 4,800,000 were newly issued by the Company and 7,850,000 were sold in connection with forward sale agreements that will settle in approximately twelve months, or earlier at the Company’s option. Initial proceeds of the common stock offering, valued at approximately \$87 million, will be used to

reduce debt and for general corporate purposes. If Southern Union physically settles the forward sale agreements, it may use the net proceeds, initially valued at approximately \$142 million, to finance a portion of its equity interest in CCE Holdings and for general corporate purposes.

Southern Union will provide additional information about its fiscal 2004 operating

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results in a Current Report on Form 8-K to be filed with the Securities and Exchange Commission this morning. The Form 8-K is accessible through the Investors section of the Company's web site at [www.southernunionco.com](http://www.southernunionco.com).

### **Web Cast & Conference Call**

Southern Union will host a live web cast and conference call today at 2:00 p.m. Eastern Time to discuss fiscal 2004 results, recent events and outlook.

To participate, visit Southern Union's web site at [www.southernunionco.com](http://www.southernunionco.com) or dial 800-435-1261 (international participants dial 617-614-4076) and enter passcode 39724173. A replay of the call will be available for one week by dialing 888-286-8010 (international callers dial 617-801-6888) and entering passcode 90103665.

### **About Southern Union Company**

Southern Union Company, headquartered in Wilkes-Barre, Pennsylvania, is engaged primarily in the transportation and distribution of natural gas. Through its Panhandle Energy subsidiary, the Company owns and operates Panhandle Eastern Pipe Line Company, Trunkline Gas Company, Sea Robin Pipeline Company, Trunkline LNG Company and Southwest Gas Storage Company. Collectively, the pipeline assets operate more than 10,000 miles of interstate pipelines that transport natural gas from the Gulf of Mexico, South Texas and the Panhandle regions of Texas and Oklahoma to major U.S. markets in the Midwest and Great Lakes region. Trunkline LNG, located in Lake Charles, Louisiana, is the nation's largest liquefied natural gas import terminal. Through its local distribution companies, Missouri Gas Energy, PG Energy and New England Gas Company, Southern Union also serves nearly one million natural gas end-user customers in Missouri, Pennsylvania, Massachusetts and Rhode Island. For further information, visit [www.southernunionco.com](http://www.southernunionco.com).

### **Forward-Looking Information**

This release and other Company reports and statements issued or made from time to time contain certain "forward-looking statements" concerning projected future

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financial performance, expected plans or future operations. Southern Union cautions that actual results and developments may differ materially from such projections or expectations.

Investors should be aware of important factors that could cause actual results to differ materially from the forward-looking projections or expectations. These factors include, but are not limited to: cost of gas; gas sales volumes; gas throughput volumes and available sources of natural gas; discounting of transportation rates due to competition; customer growth; abnormal weather conditions in the Company's service territories; impact of relations with labor unions of bargaining-unit employees; the receipt of timely and adequate rate relief and the impact of future rate cases or regulatory rulings; the outcome of pending and future litigation; the speed and degree to which competition is introduced to our gas distribution business; new legislation and government regulations and proceedings affecting or involving the Company; unanticipated environmental liabilities; the Company's ability to comply with or to challenge successfully existing or new environmental regulations; changes in business strategy and the success of new business ventures; exposure to customer concentration with a significant portion of revenues realized from a relatively small number of customers and any credit risks associated with the financial position of those customers; factors affecting operations such as maintenance or repairs, environmental incidents or gas pipeline system constraints; our or any of our subsidiaries debt securities ratings; the economic climate and growth in our industry and service territories and competitive conditions of energy markets in general; inflationary trends; changes in gas or other energy market commodity prices and interest rates; the current market conditions causing more customer contracts to be of shorter duration, which may increase revenue volatility; the possibility of war or terrorist attacks; the nature and impact of any extraordinary transactions such as any acquisition or divestiture of a business unit or any assets.

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Following are the unaudited comparative, summarized financial results of Southern Union Company and Subsidiaries for the three- and twelve-month periods ended June 30, 2004 and 2003 (amounts in thousands except shares and per share amounts):

	Three months ended June 30,		Twelve months ended June 30,	
	2004 (a)	2003 (b)	2004 (a)	2003 (b)
Operating revenues	\$ 286,888	\$ 207,030	\$ 1,799,974	\$ 1,188,507
Net operating margin (c)	\$ 182,843	\$ 89,516	\$ 890,141	\$ 423,411
Net earnings (loss) from continuing operations	\$ 3,943	\$ (11,898)	\$ 114,025	\$ 43,669
Net earnings from discontinued operations	\$ --	\$ 1,264	\$ --	\$ 32,520
Net earnings (loss)	\$ 3,943	\$ (10,634)	\$ 114,025	\$ 76,189
Net earnings (loss) available for common shareholders	\$ (398)	\$ (10,634)	\$ 101,339	\$ 76,189
Net earnings (loss) available for common shareholders from continuing operations per share:				
Basic	\$ (0.01)	\$ (0.20)	\$ 1.41	\$ 0.76
Diluted	\$ (0.01)	\$ (0.20)	\$ 1.37	\$ 0.74
Net earnings (loss) available for common shareholders per share:				
Basic	\$ (0.01)	\$ (0.18)	\$ 1.41	\$ 1.33
Diluted	\$ (0.01)	\$ (0.18)	\$ 1.37	\$ 1.29
Weighted average shares outstanding:				
Basic	71,997,879	59,807,049	71,848,259	57,176,843
Diluted	71,997,879	59,807,049	73,993,300	59,017,861

- (a) The three- and twelve-month periods ended June 30, 2004, include net earnings from Panhandle Energy of \$14,144,000 and \$94,041,000, respectively. The three- and twelve-month periods ended June 30, 2004, also include non-taxable dividends on preferred stock of \$4,341,000 and \$12,686,000, respectively.
- (b) The three- and twelve-month periods ended June 30, 2003, include net earnings from Panhandle Energy of \$4,612,000 (from June 12, 2003). The twelve-month period ended June 30, 2003, also includes an after-tax gain of \$14,462,000 on the settlement of the Company's claims related to the Southwest Gas case, which was partially offset by related litigation expense of \$3,824,000, net of tax, and an \$18,928,000 after-tax gain on sale of the discontinued Texas operations, which is reflected in the net earnings from discontinued operations.
- (c) Net operating margin consists of operating revenues less gas purchase costs and revenue-related taxes.

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